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MEMORANDUM

June 8, 2022

TO: The Chairman and Members of the Commission

FROM: Joshua Bowman, Regulatory Policy Administrator

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY, INC. FOR AUTHORITY TO IMPLEMENT A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) RATE FOR NATURAL GAS DISTRIBUTION EFFECTIVE JANUARY 1, 2021, PURSUANT TO 26 *DEL. C.* § 315 (FILED NOVEMBER 30, 2020) – PSC DOCKET NO. 20-0804

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY, INC. FOR AUTHORITY TO IMPLEMENT A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) RATE FOR ELECTRIC DISTRIBUTION EFFECTIVE JULY 1, 2021, PURSUANT TO 26 *DEL. C.* § 315 (FILED MAY 28, 2021) – PSC DOCKET NO. 21-0408

On November 30, 2020, Delmarva Power & Light Company ("Delmarva" or the "Company") filed with the Delaware Public Service Commission ("Commission") an application to set its Distribution System Improvement Charge ("Gas DSIC Rate") at 0.95% with an effective date of January 1, 2021. This was based on net additional plant of \$10,322,769 placed into service between October 1, 2020, and October 31, 2020, along with an associated semi-annual depreciation expense of \$55,136. Delmarva did not include additional plant placed into service

from May 2020 through September 2020 because such improvements were included in its then-pending rate case, Docket 20-0150.

On December 14, 2020, the Commission entered Order No. 9708, opening Docket No. 20-0804 and approving Delmarva's request to set its Gas DSIC Rate at 0.95%, subject to Commission Staff's ("Staff") annual audit and review to be performed based on the 12-month period ending December 31, 2021.

On May 28, 2021, Delmarva filed an application to increase its Gas DSIC Rate to 5.00%, with an effective date of July 1, 2021. This application was based on net plant additions in the amount of \$25,918,984, and an associated semi-annual depreciation expense of \$131,566.

On June 23, 2021, the Commission entered Order No. 9824, opening Docket No. 21-0408 and increasing Delmarva's Gas DSIC Rate to 4.85%,¹ subject to Staff's annual audit and review to be performed based on the 12-month period ending December 31, 2021.

Between March and May of 2022, Delmarva began providing information for Docket Nos. 20-0804 and 21-0408, as requested, and Staff conducted the audit and review of the Gas DSIC Rates. The audit consisted of the established procedures utilized for companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

Findings for PSC Docket No. 20-0804: Effective Period January 1, 2021 – June 30, 2021

Staff reviewed the Company's quarterly Rate of Return reports associated with this Docket's effective period. Staff confirmed that the Company was not earning a Rate of Return in excess of its authorized Rate of Return. Staff also reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

The semi-annual Gas DSIC revenue requirement for this Docket was \$519,817. During this Docket's effective time period, the Company collected \$551,323 in Gas DSIC revenues. This resulted in an over-collection in the amount of \$31,426.

Staff then reviewed the adjusted Rate Base components of the Gas DSIC Rate calculation. The adjusted plant additions were reviewed for conformity with statutory requirements. Plant additions were traced by project and by account and were reviewed to ascertain whether appropriate expenditures were included in the Rate Base components of the Gas

¹In Order No. 9824, the Commission described the adjustment it made to the requested DSIC Rate of 5.00%, which resulted in the approved DSIC Rate of 4.85%.

DSIC Rate. Staff believes that the plant additions portion of the Gas DSIC Rate calculation are accurate.

Finally, Staff reviewed the Semi-Annual Depreciation Expense component of the Gas DSIC Rate. The Company's calculation of total depreciation comported with the amount posted to the general ledger, and the rates were the same as those approved by the Commission.

Therefore, Staff recommends that the Gas DSIC Rate of 0.95% in effect from January 1, 2021, through June 30, 2021, be approved as final.

Findings for PSC Docket No. 21-0408: Effective Period July 1, 2021 – December 31, 2021

Similar to Docket No. 20-0804, Staff reviewed the Company's quarterly Rate of Return reports associated with this Docket's effective period. Staff confirmed that the Company was not earning a Rate of Return in excess of its authorized Rate of Return. Staff also reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

The semi-annual Gas DSIC revenue requirement for this Docket was \$1,776,862. During this Docket's effective time period, the Company collected \$1,633,500 in Gas DSIC revenues. This resulted in an under-collection of \$143,362 of the semi-annual revenue requirement for this period.

Staff then reviewed the Rate Base Components of the Gas DSIC Rate calculation. The plant additions were reviewed for conformity with statutory requirements. Plant additions were traced by project and by account and were reviewed to ascertain whether appropriate expenditures were included in the Rate Base components of the Gas DSIC Rate. Staff believes that the plant additions portion of the Gas DSIC Rate calculation are accurate.

Finally, Staff reviewed the Semi-Annual Depreciation Expense component of the Gas DSIC Rate. The Company's calculation of total depreciation comported with the amount posted to the general ledger, and the rates were the same as those approved by the Commission.

Therefore, Staff recommends that the Electric DSIC Rate of 4.85% in effect from July 1, 2021, through December 31, 2021, be approved as final.

The over-collection of Gas DSIC revenue for the Gas DSIC Rate period defined in PSC Docket No. 20-0804 in the amount of \$31,426, along with the under-collection of Gas DSIC revenue for the Gas DSIC Rate period defined in PSC Docket No. 21-0408 in the amount of \$143,362, result in a total combined under-collection of \$111,936 for the 12-month period ending December 31, 2021.

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This total under-collection amount will be reconciled in Delmarva's pending Gas DSIC Rate application in PSC Docket No. 22-0440.

Staff recommends that the Commission approve the conditional rates from PSC Order Nos. 9708 and 9824 as final 2021 Gas DSIC Rates for the associated time periods and that the Commission close Docket Nos. 20-0804 and 21-0408.